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SUBJECT: SOUTH AFRICA TAKING STEPS TO BOOST
RENEWABLE ENERGY; MAJOR OBSTACLES REMAIN

REF: Pretoria 810

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¶1. (SBU) Summary. Participants at a recent conference on climate change and development in Pretoria reviewed the status of renewable energy in South Africa, including regulatory and market barriers to development of the renewables sector. Industry insiders were skeptical that the government's target of 4 percent renewable energy generation by 2013 could be reached, citing little progress since the government's energy policy was announced in 2003. The government reaffirmed its commitment to renewable energy, outlining a new set of financial instruments to promote its development. These include a Renewable Energy Feed-In Tariff (REFIT) program that will enable the state power utility Eskom to purchase renewable energy from independent power producers (IPPs). However, serious institutional and market barriers remain to South Africa's transition to more renewable energy. End Summary.

Conference on Climate Change and Renewable Energy

¶2. (SBU) Environment, Science and Technology Officer and Energy Specialist attended a conference on "Climate Change and Development: driving an alternative energy future for Southern Africa?" hosted by the Institute for Global Dialogue (IGD) in Pretoria August 17-18, 2009. The aim of the conference was to review the status of renewable energy in Southern Africa and to address regulatory and market barriers to the integration of renewables in the region. (NOTE: although the conference title refers to "Southern Africa", the primary focus of the conference was South Africa's renewable energy policies. END NOTE.) This cable updates reftel on

the state of renewable energy in South Africa.

Ambitious Goals but Industry Insiders are Skeptical

¶13. (SBU) The South African government (SAG) has set a target of 4 percent, or about 10,000 gigawatt hours (GWh) of electricity to be produced from renewable sources by 2013. Stated policy drivers behind the push for renewables include the need to diversify the energy mix, improve energy security, reduce greenhouse gas (GHG) emissions, create jobs, and promote rural development. Many conference delegates expressed skepticism that the targets could be met. "A deep cynicism exists about the government's commitment to renewable energy," explained World Wide Fund for Nature's Living Planet Division head, Saliem Fakir. In fact, to date less than 1 percent of the 10,000 GWh goal is provided by renewables and 2013 is approaching fast. In a further setback, state-controlled power utility Eskom recently announced it was delaying development of a concentrating solar power plant (100 MW), a wind energy project (100 MW), and a pumped-storage Qwind energy project (100 MW), and a pumped-storage hydro project (1500 MW), owing to current economic conditions.

New Financial Instruments for Renewables

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¶14. (SBU) The South African Department of Energy's (SADOE) Clean Energy Division Director, David Mahuma, responded that the government recognized the barriers faced by renewable energy project developers, and accepted that the uptake of renewable technologies would not "come cheaply." However, he underlined the SAG commitment to renewable energy and outlined a package of new financial instruments to promote its development. These initiatives include creation of the Renewable Energy Finance and Subsidy Office (REFSO), the Renewable Energy Market Transformation project (REMT), and the recently published Renewable Energy Feed-In Tariff (REFIT) guidelines. In its 2009/2010 budget, REFSO has a 10 million Rand (approx. 1.25 million dollars) financing capability for renewable energy projects, and has already funded hydro power, biogas, and landfill gas projects. REMT has approximately \$6 million in donor funds to assist developers in bringing projects to bankability through assistance with feasibility studies and environmental impact assessments.

Renewable Energy Feed-In Tariff (REFIT)

¶15. (SBU) In March 2009, the National Energy Regulator of South Africa (NERSA) approved the REFIT guidelines to enable Eskom to purchase renewable energy from Independent Power Producers (IPP). Four renewable technologies are included in Phase 1 wind, small hydro, landfill gas, and concentrating solar Q with others to be considered in later phases. IPPs must produce a minimum of 1 MW of power to be eligible. REFIT tariffs are set to provide a fair return to investors and to cover the costs of electricity generation, but are approximately 3 Q 7 times higher than Eskom's conventional tariffs for coal-based electricity. For the program to be successful, Eskom will need to

ensure that it has adequate funds to purchase the more expensive renewable electricity, thus electricity price hikes will be required. Eskom estimates that the cost of purchasing the power to meet the 4 percent renewable target by 2013 will be 3 billion Rand per year (approximately 375 million dollars).

¶6. (SBU) Yousuf Haffejee, Eskom's Market Development Manager, said the challenges of connecting IPPs to the grid should not be underestimated. Those challenges include grid connection costs, grid stability, installation and downtime impacts and a host of other technical, legal and administrative issues. One element that is often overlooked is the question of "land servitude", i.e., property rights and easements associated with development of new IPP projects and transmission corridors. Haffejee observed that renewable energy is often produced in rural areas where demand for electricity is not high, and therefore connection to the grid and transmission to urban centers will be vital to match supply with demand. The selection criteria for IPPs will Qdemand. The selection criteria for IPPs will include a preference for plant locations that contribute to grid stabilization and minimize transmission losses.

Comment: Significant Institutional and Market

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Obstacles

¶7. (SBU) South Africa has enormous potential for renewable energy, with a favorable latitude, abundant uninterrupted sunshine, and significant wind potential on both the east and west coasts. However, serious structural, institutional, and market barriers will hinder a quick uptake of renewable technologies. First, South Africa is a coal-based economy, and the abundance of cheap coal feeds an "energy/industrial complex" that is highly sensitive to increases in the price of electricity. South Africa is facing a critical power shortage, with reserve margins of only 5-8 percent, and must quickly develop new generation capacity to meet the demands of economic growth and avoid repeating the rolling blackouts of January, 2008. Eskom's capital expansion program will require 385 billion Rand (approximately 48 billion dollars) over the next five years, and will include two large coal-fired plants.

¶8. (SBU) Second, Eskom controls more than 95% of the electricity market. In this monopolistic market structure, under the REFIT program, Eskom is designated as the single buyer of renewable energy from IPPs. Negotiating Power Production Agreements (PPAs) with the producers can be a time-consuming and bureaucratic process. South Africa's grid code and structure was designed for a small number of large power plants, making the transition to decentralized power generation difficult. The REFIT program will accommodate IPPs, but they must generate a minimum of 1 MW of power. Under the REFIT program there are currently no plans for introducing residential or other smaller scale renewable energy feed-in capabilities in the near future. Most industry observers believe that the full integration of renewable energy into South Africa's economy is a long-term project.

GIPS